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[FLG Slides for Minister Bennett - Dec 18 2015.pdf](#)

Good afternoon all

Please find below requested presentation re: Enhanced FLG

Cheers!

Auburn



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Enhanced Federal Loan Guarantee

Boundless Energy

DRAFT

December 18, 2015



Potential Impacts of Enhanced FLG

- At least \$1 billion reduction over next 2 years in NL equity contribution to Nalcor
- \$1.75 billion savings over life of the project (\$380 million on a present value basis) to NL ratepayers – from difference in cost of guaranteed debt versus equity
- Canada demonstrates progress in achieving key policies on reduction of greenhouse gas emissions and infrastructure development – with no direct cost to Canada and no change in Canada’s key financial protections (maximum DER, minimum DSCR, priority asset security and NL equity completion guarantee)

Enhanced Federal Loan Guarantee

- There are a number of potential changes that could be made to the FLG arrangements with Canada that could reduce the level and improve the timing of required NL equity funding while continuing to respect the key debt related provisions (maximum DER and minimum DSCR)
- Potential changes to FLG include:
 - Permit the existing \$450 million COREA balance to be used as equity immediately – defers timing of additional NL equity requirements
 - Eliminate the COREA concept, thereby not requiring any future COREA payments
 - Improve existing additional debt provisions to allow additional debt to be guaranteed by Canada and funded in the same way as the original \$5 billion – by maintaining maximum DER and minimum DSCR, this additional debt would be at least \$1 billion (exact amount to be determined based on updated costs)
 - Change sinking fund contribution requirement from fixed date starting in December 1, 2018 to date depending on LCP in-service with any deferred amount being amortized between in-service date and first bullet bond repayment

Current Federal Loan Guarantee

- In December 2013, the Federal Loan Guarantee (FLG) was issued by Canada, and Nalcor (through the funding trusts) completed financial close by issuing \$5 billion of AAA rated long term bonds guaranteed by Canada for the Lower Churchill Project (LCP)
- The \$5 billion proceeds were invested and are being drawn down monthly to fund LCP project expenditures
- Some of the key provisions of the FLG with Canada include:
 - Maximum debt levels (DER) for the Muskrat Falls (MF) / Labrador Transmission Assets (LTA) component of the project is 65% and for the Labrador-Island Link (LIL) is 75%
 - Minimum Debt Service Coverage Ratios (DSCR) of 1.4 times
 - Any amounts not financed through debt are to be financed by equity (supported by a formal guarantee from NL)
 - Debt is amortized over the repayment period (30 years MFLTA; 35 years LIL) through semi-annual sinking funds contributions starting on December 1, 2018
 - Any cost overruns subsequent to financial close are to be wholly pre-funded with equity through the Cost Overrun Reserve Escrow Account (“COREA”) – current COREA balance is \$450 million
- Since financial close, NL and Nalcor has maintained compliance with the provisions of all the agreements and commitments relating to the FLG